CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #07-036
FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
John Quiroz	Auditor

AUDIT REPORT NUMBER

#07-036

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
A. G. Kawamura, Secretary

Mr. Lloyd McCabe, President
Board of Directors
36th DAA, Dixon May Fair
P.O. Box 459
Dixon, California 95620

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the accompanying statements of financial condition of the 36th District Agricultural Association, Dixon May Fair, Dixon, California, as of December 31, 2006 and 2005, and the related statements of operations and changes in accountability, for the years then ended. These financial statements are the responsibility of the 36th DAA's management.

As of December 31, 2006 and 2005, the Fair did not maintain detailed accounting records for our office to follow in demonstrating they took the appropriate steps in making the transition from expensing assets in the year of acquisition to capitalizing and depreciating such amounts to comply with generally accepted accounting principles as required by Governmental Accounting Standards Board (GASB) Statement No. 34. Without detailed accounting records, we were unable to apply standard auditing procedures without extensive effort to satisfy ourselves about the disclosed amounts for Account #192, Buildings and Improvements (B&I), and Account #192.1, Accumulated Depreciation - B&I (stated as net, $993,508 and $1,480,159, respectively), and Account #193, Equipment, and Account #193.1, Accumulated Depreciation - Equipment (stated at net, at $10,972 and $16,427) as reflected on the accompanying Statement of Financial Condition as of December 31, 2006 and 2005. Furthermore, in 2006, the Fair recorded a $450,242 journal entry related to fixed assets to a prior year expense account without maintaining sufficient accounting records to explain the entry. In our opinion, complete and intact accounting records should support all amounts reported for fixed assets. Furthermore, all subsidiary ledgers should be reconciled to the Fair’s general ledger to conform to accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding issues are not reasonably determinable.

Because of the matter discussed in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph. . In addition, we will not prepare or present a statement of cash flows as of December 31, 2006 and 2005 on the 36th DAA’s behalf.

The 36th District Agricultural Association, Dixon May Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #07-036, on the 36th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 36th DAA as appropriate. This additional report, however, is <u>not</u> a required part of the basic financial statements.

Ron Shackelford, CPA
Chief, Audit Office

July 30, 2007

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2006 and 2005

	Account Number	2006	2005
ASSETS			
Cash - (Note 3)	111 - 121	$ 162,002	$ 115,210
Accounts Receivable, Net (Note 3)	131	1,438	32,322
Deferred Charges	143	10,813	-
Land	191	35,602	-
Buildings and Improvements, Net	192	993,508	1,480,159
Equipment, Net	193	10,972	16,427
TOTAL ASSETS		**1,214,335**	**1,644,118**
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable	212	617	5,154
Deferred Income	228	41,435	14,472
Guaranteed Deposits	241	8,600	8,578
Compensated Absences Liability (Note 5)	245	33,382	37,641
Long Term Debt (Note 7)	250	2,298	-
Total Liabilities and Other Credits		**86,331**	**65,846**
Net Resources			
Net Resources - Junior Livestock Auction	251	-	(5,921)
Net Resources - Operations	291	90,219	117,783
Net Resources - Capital Assets less Related Debt	291.1	1,037,784	1,466,410
Total Net Resources Available		**1,128,004**	**1,578,272**
TOTAL LIABILITIES AND NET RESOURCES		**$ 1,214,335**	**$ 1,644,118**

See accompanying independent auditor's report and notes to the financial statements.

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2006 and 2005

	Account Number	2006	2005
REVENUE			
State Allocations	312	$ 150,000	$ 150,000
Other Funds	340	-	110,572
Admissions	410	389,748	294,769
Commercial Space	415	44,205	49,091
Carnival	420	113,687	82,007
Food Concessions	422	91,569	86,177
Exhibits	430	14,699	14,212
Attractions - Fairtime	460	343,336	447,689
Miscellaneous Fair	470	89,586	94,282
JLA - Revenue	476	37,996	35,000
Non-Fair Revenue	480	251,131	233,712
Prior Year Adjustment	490	1,999	700
Other Revenue	495	20,088	2,756
Total Revenue		**1,548,044**	**1,600,967**
EXPENSES			
Administration	500	259,991	242,404
Maintenance and Operations	520	287,566	261,142
Publicity	540	128,015	90,468
Attendance	560	144,979	154,305
Miscellaneous Fair & Non-Fair	570	24,619	22,396
JLA - Expense	576	32,151	40,470
Premiums	580	20,733	18,387
Exhibits	630	39,856	32,343
Attractions - Fairtime	660	598,694	486,286
Prior Year Adjustments	800	(4,841)	(6,673)
Prior year Fixed Asset Adjustment	800.1	450,242	
Cash Over/Short from Ticket Sales	850	(42)	(476)
Depreciation	900	16,426	16,426
Total Expenses		**1,998,389**	**1,357,478**
RESOURCES			
Net Change - Income / (Loss)		(450,345)	243,489
Resources Available, January 1		1,578,349	1,384,232
Resources Available, December 31		**$ 1,128,004**	**$ 1,627,721**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 1 **ORGANIZATION**

The 36th District Agricultural Association (DAA) was formed in 1936, for the purpose of sponsoring, managing, and conducting the Dixon May Fair each year in Dixon, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the 36th DAA. The 36th DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the 36th DAA to support operations and acquire fixed assets. However, the level of state funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

NOTE 2 **BASIS OF ACCOUNTING**

The accounting policies applied to and procedures used by the 36th DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The 36th DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The 36th DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

NOTE 3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cash and Cash Equivalents

The 36th DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the 36th DAA approximates market value.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at least ten percent in excess of the uninsured funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Accounts Receivable

The 36th DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

Construction in Progress, Land, Buildings and Improvements, and Equipment

Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are capitalized and fully depreciated. Amounts spent on buildings and improvements are depreciated over a period of 30 years. Amounts spent on the purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

As of December 31, 2006, the 36th DAA, Dixon May Fair, has not maintained detailed accounting records to demonstrate that it fully complied with generally accepted accounting principals by and made a clear transition from expensing assets in the year of acquisition to capitalizing and depreciating such assets as required by GASB No. 34. The Governmental Accounting Standards Board or GASB has the final authority for establishing generally accepted accounting principles for governmental entities. Furthermore, our office noted other errors and omissions within the Fair's financial records relating to its fixed assets. These errors are more fully discussed is the accompanying Management Report #07-036

NOTE 4 **RETIREMENT PLANS**

Permanent employees of the 36th DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the 36th DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The 36th DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The 36th DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the 36th DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 5 **COMPENSATED ABSENCES**

Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 6 **<u>LITIGATION</u>**

The 36th DAA is involved in various legal actions arising in the normal conduct of its business, none of which, in the opinion of management, will have a material effect on its financial position or results of operation.

NOTE 7 **<u>INCOME TAXES</u>**

The 36th DAA is a State agency and therefore, is exempt from paying taxes on its income.

36th DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 36th DAA Board of Directors
1	Chief Executive Officer, 36th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

MANAGEMENT REPORT #07-036

YEAR ENDED DECEMBER 31, 2006

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2006

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
John Quiroz	Auditor

MANAGEMENT REPORT NUMBER
07-036

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
A. G. Kawamura, Secretary

Mr. Lloyd McCabe**,** President
Board of Directors
36th DAA, Dixon May Fair
P.O. Box 459
Dixon, California 95620

In planning and performing our audit of the financial statements of the 36th District Agricultural Association (DAA), Dixon May Fair, Dixon, California, for the year ended December 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Dixon May Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 36th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 36th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 36th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 36th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 36th DAA's accounting procedures, records, and substantiating documents.

During our review of the internal control structure of the 36th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: salary overpayment, 2006 statement of operations, accounting for fixed assets, individual living on the fairgrounds, lack of supporting documentation for concert sales, and fair expenditures. We have provided twelve recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 36th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

SALARY OVERPAYMENT

From May 2006 through June 2007, the Fair improperly paid their part-time CEO a full-time salary of $6,000 per month to manage the Fair. The $6,000 salary would have been appropriate for a full time CEO. However, since the CEO was a part-time employee, the Fair was required to pay the CEO accordingly. Furthermore, according to State rules and regulations, a former retired State employee who returns to work as an employee for the State of California is to be hired as a retired annuitant and needs to be paid an hourly wage. By law, retired annuitants are only allowed to work up to 960 hours each year without affecting their retirement pay and they are also to be paid an hourly rate within the pay parameters established by the Department of Personnel Administration (DPA).

From May 2006 to June 2007, timecards indicate the employee worked the part-time schedule while receiving a full-time salary of $6,000 per month and receiving full retirement benefits from CalPERS. More specifically, the employee has been paid $6,000 per month for working 36-42 hours per monthly pay period, with the exception of May 2006, where related time cards show the CEO worked 128 hours. Overall, the CEO has been paid a total of $84,000 for the 14-month period from May 2006 to June 2007. Our office determined the CEO's hourly pay to be $34.62 and recalculated the actual amount owed based on the CEO's timecards. To further substantiate these records, our auditor met with the CEO and discussed the number of hours worked. The CEO reiterated that her timesheets were accurate and she signed a record of discussion indicating this as well.

In order to determine an hourly rate for an employee each month, the State has established that the salary paid (in this case $6,000) should be divided by 173.33 hours for the month. This calculation derives an hourly rate of $34.62. By multiplying this rate by the number of hours worked and recorded by the CEO, we have determined the CEO's maximum pay for the 14-month period from May 2006 to June 2007 to be only $21,047. Therefore, a salary overpayment of $62,953 was made to the CEO and needs to be collected by the Fair.

Recommendations

1. *The Fair should establish an accounts receivable of $62,953 for the salary overpayment made to the retired annuitant within its general ledger. The Fair should work with CDFA's Human Resources Branch to officially notify the individual of the salary overpayment and establish a repayment plan.*
2. *The Fair should complete the necessary paperwork to formally register the individual as a retired annuitant with CDFA's Human Resource Branch.*

2006 STATEMENT OF OPERATIONS

The Fair did not maintain detailed accounting records or a clear accounting trail for our office to follow when auditing the fair-prepared 2006 Statement of Operations (STOP). The Fair provided our office with a pre-closing and post-closing trail balance that did not reconcile to the 2006 STOP. Our office noted material differences between amounts reported as fixed assets and net resources between both trial balances and the STOP that the Fair could not explain. The STOP is basically an extension of the information contained in the Fair's pre and post-closing trail balances; therefore it is unusual for any differences to be present.

In addition, our office noted the Fair posted a $450,242 adjusting entry to a prior year expense account without maintaining any supporting documentation for the entry. Without any supporting documentation or any other meaningful evidence justifying the transaction, our office cannot determine the appropriateness of the $450,242 entry and whether other Fair revenues and expenses are materially misstated. Generally Accepted Accounting Principles, good business practices, the Accounting Procedures Manual require all material journal entries to be researched, supported, and justified.

The conditions specified above are the primary reason our office will issue a disclaimer of opinion on the Fair's 2006 financial statements.

Recommendations

3. *The Fair should ensure a clear audit trail exists at year-end as it closes its accounting records and prepares the annual Statement of Operations. This includes (i) maintaining a pre-closing trial balance that reconciles to the general ledger, (ii) maintaining detailed journal entries as the Fair closes current year revenue and expenses, (iii) formally closing all revenue and expenses and preparing a post-closing trial balance as of December 31, and (iv) preparing and reconciling the annual statement of operations to financial information on the pre- and post-closing trial balances.*
4. *The Fair should comply with Generally Accepted Accounting Principles by ensuring that all journal entries and other material transactions recorded in the general ledger are adequately supported and justified.*

ACCOUNTING FOR FIXED ASSETS

The audit reports issued by our office for the past few years identified the 36th DAA had lost control in accounting for its fixed assets. Our prior audit reports identified that the Fair did not update either its property or general ledgers when acquiring new assets, omitted the historical cost of land, and did not account for any open capital projects in Account #190, Construction in Progress. As a result of these errors and omissions, our office could not issue an unqualified opinion the Fair's financial statements.

In late 2006, the Fair hired the California Fair Services Authority (CFSA) to assist it in reconstructing its fixed asset records. Although improvements had been made, as of our audit date in June 2007, the following internal control weaknesses were noted:

a. Several projects completed by the California Construction Authority (CCA) had not been accounted for in the general ledger and the property ledger (P/L). Furthermore, the Fair does not have a construction in progress (CIP) account. The Fair needs to establish this account to track any construction it may have throughout the year or years until the construction is completed and the project is placed in service. The Division of Fairs and Expositions (F&E) Fixed Asset Policy and Procedure Manual requires the Fair to track costs incurred for its projects throughout the year in Account #190, Construction in Progress.

b. The Fair could not provide our office with completed depreciation schedules that reconciled to asset amounts reported in the general ledger. As a result, our office could not ensure the net assets amounts reported along with the related depreciation expense were fairly presented on the year-end financial statements.

Recommendations

5. *The Fair should continue to make it a priority to research and correct the accounting errors and omissions that currently exist in their financial records. Prior to closing the accounting period at year-end, the Fair should ensure amounts reported for fixed assets on the annual STOP are reconciled to amounts in the general ledger and property ledger. Any differences should be researched for their cause and corrected prior to filing the STOP with F&E.*

6. *The Fair should track the cost of all capital projects throughout the year in Account #190, Construction in Process. Upon the project's completion, the Fair should ensure depreciable costs from all funding sources are capitalized and reconciled with the capital project closeout reports from CCA.*

7. *The Fair should place more emphasis on maintaining accurate and detailed depreciation worksheets that reflect all Fair assets that have a value more than $5,000 and a useful life of more than one year. Furthermore, these worksheets should be updated within the month a new asset is placed in service. Finally, the amounts reflected on the depreciation worksheets should be reconciled to related amounts in the general ledger at year-end.*

INDIVIDUAL LIVING ON THE FAIRGROUNDS

The Fair allowed an individual to live on the fairground rent-free in exchange for services. An examination of this relationship identified the following exceptions:

a. The Fair did not prepare or issue an Internal Revenue Service (IRS) Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to report the fair market value (FMV) of the rent-free lodging as miscellaneous income. The IRS requires this form be prepared any time services are rendered through a barter exchange.

b. The Fair did not determine the FMV of the free lodging in lieu of services performed by the employee. Therefore, our office was not able to determine whether the Fair violated the State Contracting Manual, Section 5.06. The manual dictates that state contracts of $5,000 or more must have evidence that bids were obtained.

Furthermore, Section 5.08, Competitive Bidding Options, states that "three competitive bids or proposals are required."

Recommendations

8. *The Fair should ensure it reports the value of providing an individual rent-free housing to the IRS on a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions.*
9. *The Fair should ensure they comply with the State Contracting Manual by obtaining three bids for all service contracts valued at more than $5,000.*

LACK OF SUPPORTING DOCUMENTATION FOR CONCERT SALES

The Fair could not locate or provide our office with any accounting records relating to a concert event that generated $161,830 in revenue. The Fair used an outside contractor to sell tickets for the concert event; however, the Fair could not provide our office with any supporting documentation for overall ticket sales. Without any accounting records, our office could not verify the accuracy of revenues to ensure that all amounts entitled to the Fair were collected, deposited, and properly accounted for in the correct revenue accounts.

Recommendation

10. *The Fair should ensure that all accounting records, including those related to concert sales, are properly maintained in accordance with the records retention policy as outlined in the Accounting Procedures Manual.*

FAIR EXPENDITURES

The Fair did not justify and support the business purpose and necessity for discretionary expenditures totaling $5,629 for catered dinners provided to board members and their guests during the fair. Sound accounting, good business practices, and the requirements of F&E internal policy over public relations and promotional expenses mandate specific and detailed information for all persons incurring such expenses, including members of the Board of Directors. All claims must include the names of all recipients of the item or benefit, purpose of the expenditure, justification for providing food or a meal, specifying the topics discussed during the event, and the necessity of or the benefits expected to accrue to the Fair by entertaining.

In addition, the Fair did not comply with the Department of General Services (DGS) Delegated Purchasing Authority rules over procurement. Our office identified seven instances where the Fair had invoices greater than $5,000; however, no bids were attached. The Delegated Purchasing Authority requires all fairs to demonstrate a competitive effort for all purchases made in excess of $5,000

Recommendations

11. *The Fair should follow F&E internal policy by requiring that all claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit and the purpose of the expenditure, justification for the food or meal,*

specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim that does not meet all the requirements should not be approved for payment.

12. The Fair should comply with the DGS Delegated Purchasing Authority by ensuring it makes a competitive effort and obtains formal written bids for all purchases that exceed $5,000.

NON-REPORTABLE CONDITIONS

JUNIOR LIVESTOCK AUCTION REVENUE

Our office noted weaknesses in the Fair's internal controls over the administration of the Junior Livestock Auction (JLA) activities conducted on the fairgrounds. The Fair was unable to provide a written agreement with the bank outlining the financial and administrative responsibilities of both parties in administering the JLA. The F&E Accounting Procedures Manual (APM) requires a written agreement between and bank and the Fair when JLA activities are delegated to an outside entity. This is a prior year audit finding.

Recommendation

The Fair should enter into a Standard 210 Agreement with the bank that administers the JLA on behalf of the Fair. The agreement should specifically outline the bank's overall role and record keeping responsibilities when administering the JLA on the Fair's behalf. The purpose of the written agreement is to mitigate the impact of any disputes that may arise between the parties.

ENTERTAINMENT TAXATION WITHHOLDING

When auditing the Fair compliance with State rules and regulations over service contracts, our office noted the Fair did not complete and submit a list of prospective out-of-state entertainers, who will receive $1,500 or more, to the Franchise Tax Board (FTB), Withholding At Source Unit. The submission of this list will ensure proper taxation withholdings of entertainers/performing entities by the Fair as required by FTB.

Recommendation

The Fair should ensure they comply with all existing State rules and regulations over service contracts. The Fair should complete and submit a list of prospective entertainers who will receive $1,500 or more to the Franchise Tax Board, Withholding At Source Unit, to ensure proper taxation withholdings.

CARNIVAL REVENUE

Upon auditing the Fair's carnival revenue, our office noted the carnival contractor did not sign the carnival settlement sheet that outlined the financial split between the contractor and the Fair. It should be noted that revenue generated by the carnival contractor represents the largest shared revenue on the fairgrounds. By not having both parties sign this document and affirming the revenue due/received is mutually agreed upon, the Fair puts itself at risk for lost revenue. At the conclusion of fair time, both parties should review the settlement sheet for accuracy and sign it to indicate both parties are mutually satisfied with the corresponding revenue split.

Recommendation

The Fair should improve its internal controls over carnival revenue by ensuring the carnival settlement sheet has been reviewed and signed by both parties to alleviate any discrepancies that may later arise.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

DIXON MAY FAIR
36th District Agricultural Association

July 5, 2009

Ron Shackelford, Audit Chief
CDFA Audit Office
1220 N Street, Room 344
Sacramento, Calif. 95814

Management Report #07-036

1. The 36th DAA filed an Application for Discharge from Accountability (form 27) with Fairs & Expositions and the State Controller's Division of Collections to write off and delete Accounts Receivable #50200 (CEO overpayment) from our books.

2. Unable to comply because of the untimely death of our Interim CEO.

3. CFSA now does our State of Operations.

4. I send journal entries to CFSA and they too do journal entries.

5. We are working with CFSA.

6. We are working with CFSA.

7. CFSA does our depreciation.

8. We do have a Standard Agreement on our caretaker and charge him the market value of $5.00 per day. He received a 1099. The total value is less than $5,00.

9. We have tried to get three bids on anything over $5,000 for service contracts.

10. Ticketmaster is doing our ticket sales for concerts

11. We have tried to justify food expenditures for entertaining.

12. We have tried to get bids on all purchases that exceed $5,000.

Lloyd McCabe, President 36th DAA Board of Directors

36th District Agricultural Association
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CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 36th DAA, Dixon May Fair, for their review and response. The Dixon May Fair response addressed the findings in the report and stated their plans for implementing each recommendation. However, we have reviewed their response and in order to provide clarity and perspective, we have provided the following comments for report #07-036 recommendations. The comments are as follows:

As indicated in the Fair's response, the Fair stated that they are working with California Fair Service Authority (CFSA) to address the accounting weaknesses noted during our examination of the Fairs records for year end 2006. Although outsourcing some of the accounting functions to CFSA is recommended, the Fair should be cautioned that it is ultimately the Fair's responsibly to maintain and provide adequate records. The Fair should comply with the F&E Accounting Procedures Manual, section 5.1, record retention policy, which states that all records must be retained until an audit has been conducted; all of the retention periods are calculated from the date of last audit, unless otherwise specified.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 11, 2007, and June 22, 2007. My staff met with management on June 22, 2007 to discuss the findings and recommendations, as well as, other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

June 22, 2007

REPORT DISTRIBUTION

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